

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name South Branch Township	County Wexford
Audit Date 6/30/05	Opinion Date 9/16/05	Date Accountant Report Submitted to State: 11/1/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

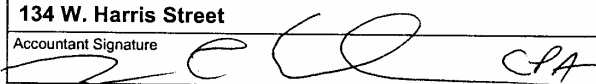
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Baird, Cotter & Bishop, P.C.			
Street Address 134 W. Harris Street		City Cadillac	State MI
Accountant Signature 		ZIP 49601	
		Date 10/21/05	

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

CADILLAC, MICHIGAN

JUNE 30, 2005

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

JUNE 30, 2005

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SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

JUNE 30, 2005

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CERTIFIED PUBLIC ACCOUNTANTS

September 16, 2005

INDEPENDENT AUDITORS' REPORT

To the Township Board
South Branch Township
Wexford County
Cadillac, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Branch Township, Wexford County, Cadillac, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of South Branch Township, Wexford County, Cadillac, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through ix and budgetary comparison information on page 21 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Branch Township, Wexford County, Cadillac, Michigan's basic financial statements. The combining and individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2005

South Branch Township, a general law township located in Wexford County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the South Branch Township board's discussion and analysis of the financial results for the fiscal year ended June 30, 2005, along with specific comparative information as required.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$155,076. Of this amount, \$43,662 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$78,403 an increase of \$5,856 in comparison with the prior year. About 37.37% is available for spending at the Township's discretion.
- ◆ The Township's total debt decreased by \$3,932 during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2005

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities)

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2005

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township's financial position over time. The Net Assets of the Township are \$155,076 at June 30, 2005, meaning the Township's assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. A comparison with the previous fiscal year is presented in order to show the change in Net Assets over the previous fiscal year.

**South Branch Township
Net Assets as of June 30,**

	<u>2005</u>	<u>2004</u>
Assets		
Current Assets	\$ <u>80,561</u>	\$ <u>82,688</u>
Non Current Assets		
Capital Assets	177,138	184,956
Less: Accumulated Depreciation	<u>(82,314)</u>	<u>(98,247)</u>
Total Non Current Assets	<u>94,824</u>	<u>86,709</u>
Total Assets	\$ <u><u>175,385</u></u>	\$ <u><u>169,397</u></u>
Liabilities		
Current Liabilities	\$ 6,897	\$ 14,851
Long-Term Liabilities	<u>13,412</u>	<u>17,516</u>
Total Liabilities	\$ <u>20,309</u>	\$ <u>32,367</u>
Net Assets		
Invested in Capital Assets, Net Related Debt	\$ 77,308	\$ 65,261
Restricted for Specific Purposes	34,106	14,747
Unrestricted	<u>43,662</u>	<u>57,022</u>
Total Net Assets	<u>155,076</u>	<u>137,030</u>
Total Liabilities and Net Assets	\$ <u><u>175,385</u></u>	\$ <u><u>169,397</u></u>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, and others) less any related debt that is outstanding that the Township used to acquire the asset. The Township has \$43,662 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2005

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Township increased by \$18,046 or 13.17% in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

**South Branch Township
Change in Net Assets
for the Fiscal Year Ended June 30,**

	2005	2004
<u>Revenues</u>		
Program Revenues		
Charges for Services	\$ 2,555	\$ 8,021
Operating Grants and Contributions	1,786	2,470
Capital Grants and Contributions	10,000	51,951
General Revenues		
Property Taxes	65,408	47,630
State Shared Revenue	24,708	26,117
Unrestricted Investment Earnings	1,025	629
Gain on Sale of Capital Assets	17,820	0
Other	204	3,763
Total Revenues	\$ 123,506	\$ 140,581
<u>Expenses</u>		
Legislative	\$ 16,066	\$ 14,036
General Government	36,130	31,762
Public Safety	37,583	45,868
Public Works	1,615	1,480
Other Functions	13,275	6,305
Interest on Long-Term Debt	791	961
Total Expenses	\$ 105,460	\$ 100,412
Changes in Net Assets	18,046	40,169
NET ASSETS – Beginning of Year	137,030	96,861
NET ASSETS – End of Year	\$ 155,076	\$ 137,030

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2005

Governmental Activities

During the fiscal year ended June 30, 2005, the Township's net assts increased by \$18,046 or 13.17% in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of South Branch Township comes from property taxes. The Township levied a millage for fire protection, in addition to the operating millages, this fiscal year. The Township levied 0.8870 mills for operating purposes, 2.000 mills for fire protection, and 1.000 mills for fire equipment.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation. In 2005, the amount of state shared revenue received by the Township trended downward, representing declining sales tax collections and discretionary reductions by the State in revenue sharing payments.

The Township's governmental activities expenses are dominated by public safety expenses that total 35.64% of total expenses. The Township spent \$37,583 in fiscal year 2005 on public safety expenses. General governmental represented the next largest expense at \$36,130 followed by legislative at \$16,066. These represent 34.26% and 15.23% respectively. Expenses for salaries, less expensive equipment and insurance, represent a large portion of the public safety expenses at \$12,738. Depreciation expense added another \$9,968.

Business-Type Activities

The Township does not maintain any Business-Type Activities.

Financial Analysis of the Government's Funds

Governmental Activities The focus of South Branch Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, South Branch Township's governmental funds reported combined ending fund balances of \$78,403. Approximately 37.37% of this total amount (\$29,297) constitutes unreserved fund balance. The remainder of the fund balance is reserved or designated for specific purposes

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2005

and is therefore not available for new appropriation. For example, the fund balance that is reserved for fire protection must be used for expenditures that relate to fire protection.

General Fund – The General Fund decreased its fund balance by 11,473 which brings the fund balance to \$48,645. Of the General Fund's fund balance, \$29,297 is unreserved while \$4,348 is reserved for right-of-way maintenance, and \$15,000 is designated for the community building. Property tax revenues increased by 18.91% or \$2,340. State shared revenues decreased by \$1,409 from the prior year. This represents a 5.39% reduction which resulted from the State Actions in response to the economic slowdown experienced throughout the State of Michigan.

Fire Fund – The Fire Fund increased its fund balance by \$17,810 which brings the fund balance to \$29,758. This balance is reserved and must be used for fire protection and fire equipment.

The Township levied a fire millage on the 2004 tax roll. This resulted in \$44,146 in tax related revenues during the current fiscal year.

Municipal Street Fund – The Municipal Street Fund was closed out with a transfer to the General Fund for the amount of the remaining fund balance.

Liquor Law Enforcement Fund – The Liquor Law Enforcement Fund's fund balance remained the same at zero. The Liquor license fees received for the State do not cover the entire expenditures from the Wexford County Sheriff's Department, therefore, only the expenditures paid for by the revenue of this fund are recorded here. The balance is recorded in the General Fund.

Proprietary Fund The Township does not maintain any proprietary funds.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of June 30, 2005 amounted to \$94,824 net of accumulated depreciation. The total net increase in the Township's investment in capital assets for the current fiscal year was 9.36%.

Capital assets summarized below include any items purchased with a cost greater than \$300 individually (for purchases after June 30, 2003) and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2005

**South Branch Township
Capital Assets as of June 30,**

	2005	2004
Land	\$ 200	\$ 400
Buildings and Improvements	29,063	41,100
Equipment and Vehicles	147,875	143,456
	177,138	184,956
Less Accumulated Depreciation	82,314	98,247
Net Capital Assets	\$ 94,824	\$ 86,709

Major capital asset events during the current fiscal year included the following:

- ◆ New roof to enhance the life of the township's building cost \$8,063.
- ◆ Ambulance was donated to assist the fire protection of township resident's valued at \$10,000.

Long-Term Debt At the end of the current fiscal year, the Township had total installment debt outstanding of \$17,516. The entire balance of this debt is backed by the full faith and credit of the government. The lender also has a security interest in the tanker purchased with the note proceeds. Additional information on the Township's long-term debt can be found in the notes to the financial statements.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues. The Township's millage rate was reduced again by the Headlee Amendment rollback to .8608 mills for general operating purposes.

A fire millage was once again levied for the 2005 tax roll. The mills to be levied for the 2005 tax roll for fire protection is 1.9410 for fire protection operations and 0.9705 for fire protections equipment.

These factors were considered in preparing the Township's budgets for the 2005-06 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact South Branch Township at 10510 W. M-55, Cadillac, MI 49601.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Cash	\$ 74,119
Receivables	
Intergovernmental	5,440
External Parties (Fiduciary Funds)	<u>1,002</u>
 Total Current Assets	 <u>80,561</u>
 <u>CAPITAL ASSETS</u>	
Land	200
Buildings and Improvements	29,063
Equipment and Vehicles	<u>147,875</u>
	177,138
Less Accumulated Depreciation	<u>82,314</u>
Net Capital Assets	<u>94,824</u>
 TOTAL ASSETS	 <u><u>\$ 175,385</u></u>
 <u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$ 2,158
Accrued Interest Payable	635
Current Portion of Long-Term Debt	<u>4,104</u>
 Total Current Liabilities	 <u>6,897</u>
 <u>LONG-TERM LIABILITIES</u>	
Notes Payable	17,516
Less: Current Portion	<u>(4,104)</u>
 Total Long-Term Liabilities	 <u>13,412</u>
 TOTAL LIABILITIES	 <u>20,309</u>

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>EQUITY</u>	
Net Assets:	
Invested in Capital Assets, Net of Related Debt	77,308
Restricted for Right-of-Way Maintenance	4,348
Restricted for Fire Protection	29,758
Unrestricted	<u>43,662</u>
 TOTAL NET ASSETS	 <u><u>\$ 155,076</u></u>

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUE
					AND CHANGES IN NET ASSETS
					TOTAL GOVERNMENTAL ACTIVITIES
<u>PRIMARY GOVERNMENT</u>					
<u>GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 16,066	\$ 0	\$ 0	\$ 0	\$ (16,066)
General Government	36,130	2,555	0	0	(33,575)
Public Safety	37,583	0	1,786	10,000	(25,797)
Public Works	1,615	0	0	0	(1,615)
Other Functions	13,275	0	0	0	(13,275)
Interest on Long-Term Debt	791	0	0	0	(791)
Total	\$ 105,460	\$ 2,555	\$ 1,786	\$ 10,000	(91,119)

GENERAL REVENUES

Taxes	65,408
State Shared Revenue	24,708
Unrestricted Investment Earnings	1,025
Gain on Sale of Capital Assets	17,820
Other	204
Total General Revenues	109,165
Change in Net Assets	18,046
NET ASSETS - Beginning of Year	137,030
NET ASSETS - End of Year	\$ 155,076

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
JUNE 30, 2005

	GENERAL FUND	FIRE FUND	MUNICIPAL STREET FUND	LIQUOR LAW ENFORCEMENT FUND	TOTALS
<u>ASSETS</u>					
Cash	\$ 41,680	\$ 32,439	\$ 0	\$ 0	\$ 74,119
Due from Other Funds	2,067	0	0	0	2,067
Due from Other Governments	5,440	0	0	0	5,440
TOTAL ASSETS	<u>\$ 49,187</u>	<u>\$ 32,439</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 81,626</u>
<u>LIABILITIES AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 542	\$ 1,616	\$ 0	\$ 0	\$ 2,158
Due to Other Funds	0	1,065	0	0	1,065
Total Liabilities	<u>542</u>	<u>2,681</u>	<u>0</u>	<u>0</u>	<u>3,223</u>
<u>FUND BALANCE</u>					
Reserved for:					
Right-of-Way Maintenance	4,348	0	0	0	4,348
Fire Protection	0	29,758	0	0	29,758
Unreserved					
Designated for					
Community Building	15,000	0	0	0	15,000
Undesignated	29,297	0	0	0	29,297
Total Fund Balance	<u>48,645</u>	<u>29,758</u>	<u>0</u>	<u>0</u>	<u>78,403</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 49,187</u>	<u>\$ 32,439</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 81,626</u>

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total Fund Balance for Governmental Funds	\$	78,403
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	200	
Buildings	29,063	
Equipment	147,875	
Accumulated Depreciation	<u>(82,314)</u>	94,824

Long-term liabilities are not due and payable in the current period
and therefore are not reported in the funds.

Notes Payable	(17,516)	
Accrued Interest Payable	<u>(635)</u>	<u>(18,151)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>155,076</u></u>
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The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2005

	GENERAL FUND	FIRE FUND	MUNICIPAL STREET FUND	LIQUOR LAW ENFORCEMENT FUND	TOTALS
<u>REVENUES</u>					
Taxes	\$ 21,262	\$ 44,146	\$ 0	\$ 0	\$ 65,408
State Grants	24,708	0	0	1,486	26,194
Charges for Services	2,455	0	0	0	2,455
Interest and Rents	1,084	41	0	0	1,125
Other Revenues	15,150	13,374	0	0	28,524
Total Revenues	64,659	57,561	0	1,486	123,706
<u>EXPENDITURES</u>					
Legislative	16,066	0	0	0	16,066
General Government	44,413	0	0	0	44,413
Public Safety	1,244	34,885	0	1,486	37,615
Public Works	1,615	0	0	0	1,615
Other Functions	13,275	0	0	0	13,275
Debt Service	0	4,866	0	0	4,866
Total Expenditures	76,613	39,751	0	1,486	117,850
Excess (Deficiency) of Revenues Over Expenditures	(11,954)	17,810	0	0	5,856
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfer In	481	0	0	0	481
Transfer Out	0	0	(481)	0	(481)
Total Other Financing Sources (Uses)	481	0	(481)	0	0
Net Change in Fund Balance	(11,473)	17,810	(481)	0	5,856
<u>FUND BALANCE -</u> Beginning of Year	60,118	11,948	481	0	72,547
<u>FUND BALANCE -</u> End of Year	\$ 48,645	\$ 29,758	\$ 0	\$ 0	\$ 78,403

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2005

Net change in Fund Balance - Total Governmental Funds	\$ 5,856
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(10,267)
Capital Outlay	18,582

In the statement of activities, only the gain or loss on the sale of fixed assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. The change in net assets differs from the change in fund balances by the cost of the fixed assets sold net of accumulated depreciation. (200)

Accrued interest on notes payable is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid.

Accrued Interest Payable - Beginning of Year	778
Accrued Interest Payable - End of Year	(635)

Repayments of principal on long-term debt is an expenditure in the governmental fund, but not in the statement of activities (where it is a reduction of liabilities).

Note Payable	<u>3,932</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 18,046</u></u>
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The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2005

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 1,002
	<u><u> </u></u>
<u>LIABILITIES</u>	
Accounts Payable - South Branch Township	\$ 1,002
	<u><u> </u></u>

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

South Branch Township is a general law township located in Wexford County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

During fiscal year 2004, the Township adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

South Branch Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditures for fire protection.

The *Municipal Street Fund* accounts for revenue sources that are legally restricted to expenditures for road improvements.

The *Liquor Law Enforcement Fund* accounts for revenue sources that are legally restricted to expenditures for liquor law enforcement.

Additionally South Branch Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

D. Assets, Liabilities and Equity

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of three months or less from date of acquisition.

(I) The Township Board has authorized the Township Treasurer to invest in the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution with a location within the State of Michigan.
- (c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in subdivision (a).
- (e) Bankers' acceptances of United States banks.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

- (f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- (g) Mutual funds registered under the Investment Company Act of 1940, Title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by the Township Treasurer. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share. (Recommendation--the above limitation is recommended, however, the Treasurer may also include mutual funds whose net asset value may fluctuate on a periodic basis by so stating in this area).
- (h) Investment pools organized under the Local Government Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- (i) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118.

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and 50% of Cadillac Area Public School's taxes are levied and due July 1, and become delinquent after September 14. County and the balance of school taxes are levied and due December 1, and become delinquent after February 14. Collections of school and county taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2004 taxable valuation of the South Branch Township totaled \$15,149,599, on which ad valorem taxes levied consisted of 0.8870 mills for the South Branch Township operating purposes, 1.0000 mills for fire equipment, and 2.0000 mills for South Branch Township fire protection. These levies raised approximately \$13,437 for operating purposes, \$15,149 for fire equipment, and \$30,297 for fire protection.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$300 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building improvements	20
Public domain infrastructure	50
Vehicles	10
Equipment	5-10

South Branch Township qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Township will capitalize and depreciate infrastructure beginning July 1, 2003, in accordance with the Township's capitalization policy.

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures

6. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on June 25, 2004, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures. The Township Board did not adopt budgets for the Municipal Street Fund and the Liquor Law Enforcement Fund.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

B. Funds with Expenditures in Excess of Appropriations were as follows:

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Township Board	\$ 6,883	\$ 16,066
Supervisor	3,912	4,134
Election	800	1,152
Assessor	7,493	8,981
Clerk	4,112	5,903
Board of Review	300	1,088
Treasurer	8,237	9,190
Building and Grounds	2,300	11,905
Public Works	1,500	1,615
Other Function	9,300	13,275

These overages were funded by greater than anticipated revenues and available fund balance.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

The Township's deposits are all on deposit with Independent Lake Osceola State Bank in Baldwin, Michigan.

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Foreign currency risk. The Township is not authorized to invest in investments, which have this type of risk.

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in Section 9 of the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with Section 7 of the Township's investment policy.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2005, none of the government's bank balance of \$75,577 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

	General	Fire	Municipal Street	Liquor Law Enforcement	Total
Receivables					
Intergovernmental	\$ 1,002	\$ 0	\$ 0	\$ 0	\$ 1,002
Accounts	5,440	0	0	0	5,440
	<u>\$ 6,442</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 6,442</u>

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 400	\$ 0	\$ 200	\$ 200
Capital assets, being depreciated				
Buildings and Improvements	\$ 41,100	\$ 8,063	\$ 20,100	\$ 29,063
Equipment and Vehicles	143,456	10,519	6,100	147,875
Total capital assets, being depreciated	\$ 184,556	\$ 18,582	\$ 26,200	176,938
Less accumulated depreciation for:				
Buildings and Improvements	\$ 41,100	\$ 0	\$ 20,100	\$ 21,000
Equipment and Vehicles	57,147	10,267	6,100	61,314
Total accumulated depreciation	\$ 98,247	\$ 10,267	\$ 26,200	\$ 82,314
Total capital assets, being depreciated, net	\$ 86,309	\$ 8,315	\$ 0	\$ 94,624
Governmental activities capital assets, net	\$ 86,709	\$ 8,315	\$ 200	\$ 94,824

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 299
Public Safety	9,968
	<u>\$ 10,267</u>

Construction Commitments:

The government has no outstanding construction commitments as of June 30, 2005.

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at June 30, 2005, were:

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

<u>FUND</u>	INTERFUND RECEIVABLES	INTERFUND PAYABLES
General Fund	\$ 2,067	\$ 0
Special Revenue Funds		
Fire Fund	0	1,065
Fiduciary Funds		
Current Tax Collection Fund	0	1,002
	<u>\$ 2,067</u>	<u>\$ 2,067</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

Interfund Transfers as of June 30, 2005 were:

	TRANSFERS	IN	OUT
<u>Primary Government</u>			
General Fund	\$ 481	\$ 0	
Municipal Street Fund	0		481
	<u>\$ 481</u>	<u>\$ 481</u>	

Transfers are used (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-Term Debt

The following is a summary of the long-term debt transactions of the Township of South Branch for the year ended June 30, 2005:

	NOTES PAYABLE
Long –Term Debt Payable	
At July 1, 2004	\$ 21,448
New Debt Incurred	0
Payments on Debt	<u>(3,932)</u>
LONG-TERM DEBT PAYABLE	
AT JUNE 30, 2005	<u>\$ 17,516</u>

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Debt payable at June 30, 2005 consisted of the following:

Notes Payable:

\$33,827 note payable, Due in Annual Installments of \$4,866 through August 31, 2008; interest at 4.352%	\$ <u>17,516</u>
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The annual requirements to amortize debt outstanding as of June 30, 2005 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Amounts Payable</u>
2006	\$ 4,104	\$ 762	\$ 4,866
2007	4,282	584	4,866
2008	4,468	398	4,866
2009	4,662	204	4,866
	\$ 17,516	\$ 1,948	\$ 19,464

F. Fund Balance Reserves and Designations

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances in various funds. In addition, certain portions of unreserved fund balances have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

FUND BALANCE/NET ASSETS

Reserved

General Fund

Right-of-Way	\$ 4,348
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Special Revenue Funds

Fire Fund

Fire Protection	29,758
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Designated

General Fund

Community Building	<u>15,000</u>
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TOTAL FUND BALANCE

RESERVES AND DESIGNATIONS	\$ <u>49,106</u>
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SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions insurance and workers' compensation. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

B. Jointly Governed Organization

South Branch Township and Henderson Township have entered into an agreement to create a joint cemetery board. The cemetery's board consists of the full board of both townships. All of the financial operations of the cemetery are recorded in the General Fund of South Branch Township. Both townships share in costs of operations as South Branch Township reimburses Henderson Township for the Township's share of the costs incurred.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2005

	GENERAL FUND				FIRE FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<u>REVENUES</u>								
Taxes	\$ 15,900	\$ 15,900	\$ 21,262	\$ 5,362	\$ 0	\$ 45,536	\$ 44,146	\$ (1,390)
Federal Grants	0	0	0	0	0	4,000	0	(4,000)
State Grants	25,000	25,000	24,708	(292)	0	0	0	0
Charges for Services	4,400	4,400	2,455	(1,945)	0	0	0	0
Interest and Rents	725	725	1,084	359	200	100	41	(59)
Other Revenues	3,100	3,100	15,150	12,050	0	0	13,374	13,374
Total Revenues	49,125	49,125	64,659	15,534	200	49,636	57,561	7,925
<u>EXPENDITURES</u>								
Legislative	6,883	6,883	16,066	(9,183)	0	0	0	0
General Government	29,819	29,819	44,413	(14,594)	0	0	0	0
Public Safety	2,600	2,600	1,244	1,356	16,000	39,178	34,885	4,293
Public Works	1,500	1,500	1,615	(115)	0	0	0	0
Other Functions	9,300	9,300	13,275	(3,975)	0	0	0	0
Capital Outlay	2,200	2,200	0	2,200	0	0	0	0
Debt Service	0	0	0	0	4,866	8,000	4,866	3,134
Contingency	500	500	0	500	100	600	0	600
Total Expenditures	52,802	52,802	76,613	(23,811)	20,966	47,778	39,751	8,027
Excess (Deficiency) of Revenues Over Expenditures	(3,677)	(3,677)	(11,954)	(8,277)	(20,766)	1,858	17,810	15,952
<u>OTHER FINANCING SOURCES (USES)</u>								
Transfer In	0	0	481	481	10,000	0	0	0
Transfer Out	(10,000)	(10,000)	0	10,000	0	0	0	0
Total Other Financing Sources (Uses)	(10,000)	(10,000)	481	10,481	10,000	0	0	0
Net Change in Fund Balance	(13,677)	(13,677)	(11,473)	2,204	(10,766)	1,858	17,810	15,952
<u>FUND BALANCE</u> - Beginning of Year	60,456	60,456	60,118	(338)	11,391	11,391	11,948	557
<u>FUND BALANCE</u> - End of Year	\$ 46,779	\$ 46,779	\$ 48,645	\$ 1,866	\$ 625	\$ 13,249	\$ 29,758	\$ 16,509

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GENERAL FUND

BALANCE SHEET
JUNE 30, 2005

ASSETS

Cash	
Checking	\$ 5,000
Savings	15,029
Money Market Account	9,265
Certificate of Deposit	12,386
Due from Other Funds	2,067
Due from Other Governments	5,440
	<hr/>
TOTAL ASSETS	\$ 49,187
	<hr/> <hr/>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 542
	<hr/>

FUND BALANCE

Reserved for Right-of-Way Maintenance	4,348
Designated for Community Building	15,000
Unreserved	29,297
	<hr/>

Total Fund Balance	48,645
	<hr/>

TOTAL LIABILITIES AND FUND BALANCE	\$ 49,187
	<hr/> <hr/>

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
<u>REVENUES</u>				
Taxes	\$ 15,900	\$ 15,900	\$ 21,262	\$ 5,362
State Grants	25,000	25,000	24,708	(292)
Charges for Services	4,400	4,400	2,455	(1,945)
Interest and Rents	725	725	1,084	359
Other Revenues	3,100	3,100	15,150	12,050
Total Revenues	49,125	49,125	64,659	15,534
<u>EXPENDITURES</u>				
Legislative				
Township Board	6,883	6,883	16,066	(9,183)
General Government				
Supervisor	3,912	3,912	4,134	(222)
Election	800	800	1,152	(352)
Assessor	7,493	7,493	8,981	(1,488)
Clerk	4,112	4,112	5,903	(1,791)
Board of Review	300	300	1,088	(788)
Treasurer	8,237	8,237	9,190	(953)
Building and Grounds	2,300	2,300	11,905	(9,605)
Cemetery	2,665	2,665	2,060	605
Public Safety	2,600	2,600	1,244	1,356
Public Works	1,500	1,500	1,615	(115)
Other Functions	9,300	9,300	13,275	(3,975)
Capital Outlay	2,200	2,200	0	2,200
Contingency	500	500	0	500
Total Expenditures	52,802	52,802	76,613	(23,811)
Excess of Revenues				
Over (Under) Expenditures	(3,677)	(3,677)	(11,954)	(8,277)

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfer In	0	0	481	481
Transfer Out	(10,000)	(10,000)	0	10,000
Total Other Financing Sources (Uses)	(10,000)	(10,000)	481	10,481
Net Change in Fund Balance	(13,677)	(13,677)	(11,473)	2,204
<u>FUND BALANCE</u> - Beginning of Year	60,456	60,456	60,118	(338)
<u>FUND BALANCE</u> - End of Year	<u>\$ 46,779</u>	<u>\$ 46,779</u>	<u>\$ 48,645</u>	<u>\$ 1,866</u>

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GENERAL FUND

ANALYSIS OF REVENUES
FOR THE YEAR ENDED JUNE 30, 2005

TAXES

Current Property Taxes	\$ 14,715	
Delinquent Property Taxes	26	
Commercial Forest	243	
Property Tax Administration Fee	6,278	
Total Taxes		21,262

STATE GRANTS

Telecommunications Right of Way Maintenance	2,029	
Sales and Use Tax	22,679	
Total State Grants		24,708

CHARGES FOR SERVICES

Summer Tax Collection		2,455
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INTEREST AND RENTS

Interest Earnings	984	
Hall Rental	100	
Total Interest and Rents		1,084

OTHER REVENUES

Miscellaneous	150	
Sale of Fixed Assets	15,000	
Total Other Revenues		15,150

TOTAL REVENUES	\$ 64,659
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OTHER FINANCING SOURCES

Transfer In - Municipal Street Fund	\$ 481
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SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

LEGISLATIVE

Township Board

Personal Services

Salaries and Wages \$ 1,504

Supplies

Office Supplies 610

Other Services and Charges

Audit 11,245

Transportation 771

Miscellaneous 1,317

Capital Outlay 619

Total Legislative 16,066

GENERAL GOVERNMENT

Supervisor

Personal Services

Salaries and Wages 3,812

Salaries and Wages - Per Diem 83

Supplies

Office Supplies 239

Total Supervisor 4,134

Elections

Personal Services

Salaries and Wages 910

Supplies

Office Supplies 242

Total Elections 1,152

Assessor

Personal Services

Salaries and Wages 6,986

Supplies

Office Supplies 1,995

Total Assessor 8,981

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

Clerk		
Personal Services		
Salaries and Wages	3,858	
Salaries and Wages - Per Diem	366	
Supplies		
Office Supplies	1,531	
Other Services and Charges		
Transportation	148	
Total Clerk		5,903
Board of Review		
Personal Services		
Salaries and Wages	446	
Supplies		
Office Supplies	642	
Total Board of Review		1,088
Treasurer		
Personal Services		
Salaries and Wages	5,781	
Salaries and Wages - Per Diem	76	
Supplies		
Office Supplies	914	
Other Services and Charges		
Transportation	59	
Tax Collecting Expense	2,360	
Total Treasurer		9,190
Building and Grounds		
Supplies		
Operating Supplies	254	
Other Services and Charges		
Repairs and Maintenance	599	
Public Utilities	2,989	
Capital Outlay	8,063	
Total Building and Grounds		11,905

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

Cemetery			
Supplies			
Operating Supplies	1,001		
Other Services and Charges			
Contracted Services	1,022		
Public Utilities	37		
Total Cemetery		2,060	
Total General Government			44,413
<u>PUBLIC SAFETY</u>			
Crime Patrol			
Other Services and Charges			
Contracted Services			1,244
<u>PUBLIC WORKS</u>			
Refuse Collection			
Other Services and Charges			
Contracted Services			1,615
<u>OTHER FUNCTIONS</u>			
Insurance and Bonds		3,314	
Employee Benefits			
Medicare and Social Security and Related Penalties	8,814		
Worker's Compensation	1,147		
Total Employee Benefits		9,961	
Total Other Functions			13,275
TOTAL EXPENDITURES			\$ 76,613

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

FIRE FUND

BALANCE SHEET
JUNE 30, 2005

ASSETS

Cash	
Money Market Account	\$ 32,439

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 1,616
Due to Other Funds	1,065
	<hr/>
Total Liabilities	2,681

FUND BALANCE

Reserved for Fire Protection	29,758
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TOTAL LIABILITIES AND FUND BALANCE	\$ 32,439
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SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET			VARIANCE
	ORIGINAL	FINAL	ACTUAL	FAVORABLE (UNFAVORABLE)
<u>REVENUES</u>				
Taxes				
Current Property Taxes	\$ 0	\$ 45,536	\$ 44,146	\$ (1,390)
Federal Sources				
FEMA Grant	0	4,000	0	(4,000)
Interest and Rents				
Interest Earnings	200	100	41	(59)
Other Revenues				
Sale of Assets	0	0	3,020	3,020
Contributions from Private Sources				
Cash	0	0	300	300
In Kind	0	0	10,000	10,000
Miscellaneous	0	0	54	54
Total Revenues	200	49,636	57,561	7,925
<u>EXPENDITURES</u>				
Public Safety				
Personal Services				
Salaries and Wages				
Fire Chief	1,800	3,000	3,000	0
Per Diem	0	0	106	(106)
Supplies				
Operating Supplies	100	700	0	700
Other Services and Charges				
Repair and Maintenance	1,250	1,300	4,041	(2,741)
Public Utilities	4,850	5,500	3,565	1,935
Travel and Education	2,000	3,500	3,859	(359)
Miscellaneous	600	600	682	(82)
Capital Outlay	0	19,178	13,059	6,119

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2005

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
Other Functions				
Insurance	5,400	5,400	6,303	(903)
Employee Benefits	0	0	270	(270)
Debt Service				
Principal	4,866	8,000	3,932	4,068
Interest	0	0	934	(934)
Contingency	100	600	0	600
Total Expenditures	20,966	47,778	39,751	8,027
Excess of Revenues				
Over (Under) Expenditures	(20,766)	1,858	17,810	15,952
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	10,000	0	0	0
Net Change in Fund Balance	(10,766)	1,858	17,810	15,952
<u>FUND BALANCE</u> - Beginning of Year	11,391	11,391	11,948	557
<u>FUND BALANCE</u> - End of Year	\$ 625	\$ 13,249	\$ 29,758	\$ 16,509

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MUNICIPAL STREET FUND

BALANCE SHEET
JUNE 30, 2005

ASSETS

Cash	\$ 0
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LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
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FUND BALANCE

Reserved for Road Improvements	0
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TOTAL LIABILITIES AND FUND BALANCE	\$ 0
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SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MUNICIPAL STREET FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDING JUNE 30, 2005

<u>REVENUES</u>	\$ 0
<u>EXPENDITURES</u>	
Public Works	
Highways, Streets and Bridges	<u>0</u>
Excess of Revenues	
Over (Under) Expenditures	0
<u>OTHER FINANCING SOURCES (USES)</u>	
Transfers Out - General Fund	<u>(481)</u>
Net Change in Fund Balance	(481)
<u>FUND BALANCE</u> - Beginning of Year	<u>481</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 0</u></u>

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

LIQUOR LAW ENFORCEMENT FUND

BALANCE SHEET
JUNE 30, 2005

ASSETS

Cash

Money Market Account

\$ 0

LIABILITIES AND FUND BALANCE

LIABILITIES

\$ 0

FUND BALANCE

Reserved for Liquor Law Enforcement

0

TOTAL LIABILITIES AND FUND BALANCE

\$ 0

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

LIQUOR LAW ENFORCEMENT FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED JUNE 30, 2005

REVENUES

State Grants	
Liquor Licenses	\$ 1,486

EXPENDITURES

Public Safety	
Protective Inspection	
Other Services and Charges	
Contracted Services	<u>1,486</u>

Excess of Revenues Over	
(Under) Expenditures	0

<u>FUND BALANCE</u> - Beginning of Year	<u>0</u>
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<u>FUND BALANCE</u> - End of Year	<u><u>\$ 0</u></u>
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SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2005

	BALANCE			BALANCE
	7/1/2004	ADDITIONS	DEDUCTIONS	6/30/2005
<u>CURRENT TAX COLLECTION FUND</u>				
<u>ASSETS</u>				
Cash	\$ 913	\$ 587,405	\$ 587,316	\$ 1,002
<u>LIABILITIES</u>				
Due to Other Funds	913	65,898	65,809	1,002
Due to Other Organizations and Individuals	0	3,478	3,478	0
Due to Other Governments	0	518,029	518,029	0
Total Liabilities	\$ 913	\$ 587,405	\$ 587,316	\$ 1,002

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF 2004 TAX ROLL
JUNE 30, 2005

TAXES ASSESSED

County	\$	153,937	
County - State Education Tax		90,895	
Township			
Operating		13,437	
Fire Protection		30,297	
Fire Equipment		15,149	
Schools			
Cadillac Area Public Schools		233,634	
Mesick Consolidated Schools		664	
Intermediate School			
Wexford-Missaukee		<u>90,672</u>	628,685

TAXES COLLECTED

County		136,239	
County - State Education Tax		85,540	
Township			
Operating		11,892	
Fire Protection		26,812	
Fire Equipment		13,409	
Schools			
Cadillac Area Public Schools		215,266	
Mesick Consolidated Schools		664	
Intermediate School			
Wexford-Missaukee		<u>80,248</u>	570,070

TAXES RETURNED DELINQUENT

County		17,698	
County - State Education Tax		5,355	
Township			
Operating		1,545	
Fire Protection		3,485	
Fire Equipment		1,740	
Schools			
Cadillac Area Public Schools		18,368	
Mesick Consolidated Schools		0	
Intermediate School			
Wexford-Missaukee		<u>10,424</u>	<u>\$ 58,615</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

September 16, 2005

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board
South Branch Township
Wexford County
Cadillac, Michigan

During the course of our audit of the basic financial statements of South Branch Township for the year ended June 30, 2005, we noted the following:

Budgeting

The township had not formally adopted separate budgets for the Municipal Street Fund and the Liquor Law Enforcement Fund. State law requires that this be done prior to expending any money in these funds.

Expenditures in various functions of the General Fund, as well as, the General Fund as a whole exceeded appropriations. The Township Board is also responsible for amending the budget during the year to allow for expenditures in excess of original appropriations, or to reduce appropriations, if it appears the actual expenditures will be much less than originally appropriated.

The adoption of the budgets for each fund should be clearly noted in the board minutes, as well as any amendments to the budget throughout the year.

Reconciliations of Clerk and Treasurer Ledgers

We recommend that the Treasurer and Clerk reconcile their receipts, expenditures, and bank balances to each others records on a monthly basis. This will facilitate a continuous balancing of records and help strengthen internal controls. Currently, this is not being done as required by the Michigan Department of Treasury.

Computerized Accounting

We commend the Township for utilizing a computerized accounting program for maintaining the Township's financial records. However, we do have some suggestions for increased efficiency and accuracy:

1. Currently, all funds are included in one company in the Peachtree accounting software. Care must be taken when recording transactions to insure posting across funds does not continue to occur.

2. Receipts should be entered via the cash receipts journal rather than a journal entry. More detailed information will be able to be entered which will allow increased tracking ability and usefulness of the general ledger.
3. Bank reconciliations can easily be done within the Peachtree accounting software. The general ledger bank balances did not match the hand ledgers done by the Treasurer.
4. Thorough and complete utilization of the computerized accounting program will assist the Township in providing a complete and accurate representation of the Township's financial position.

Payroll

Federal 941 deposits are now being deposited on a timely basis. At year end, all payroll taxes are current. This is very positive and a great improvement over the prior year.

Spread of Tax Millages

During the year, the tax collections for the Township were spread based on mills before taking into account the Headlee Rollback. This caused the actual spread to be slightly different than what it should have been (about \$1,300). In the future, we recommend the spread of mills be based on the actual levy after taking into account any Headlee Rollback.

Federal Employers Identification Number (FEIN)

The Township should control and limit the use of its FEIN to accounts and uses authorized by state law and activities included in its annual audit. Confirmation with the Township's bank indicated the Fire Auxiliary may have a bank account using the Township's FEIN. We recommend the Fire Auxiliary obtain their own FEIN and discontinue use of the Township's FEIN.

We would like to thank the board for its confidence in our firm and to thank the township clerk and treasurer for their cooperation.

If you have any questions relative to the above items or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.
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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

September 16, 2005

LETTER OF REPORTABLE CONDITIONS

To the Township Board
South Branch Township
Wexford County
Cadillac, Michigan

In planning and performing our audit of the financial statements of South Branch Township, Wexford County, Cadillac, Michigan for the year ended June 30, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.